

Independent Rates Oversight Committee – IROC  
**April 19, 2010**  
**MINUTES**

**1. Roll Call**

Chairperson Billings brought the meeting to order at 10:03 a.m. Monica Musaraca called the roll and a quorum was declared. Attendance is reflected below:

<b>Member</b>	<b>Present</b>	<b>Absent</b>
Donald Billings, Chair	X	
Tony Collins	X	
Christopher Dull	X	
Andy Hollingworth	X	
Jack Kubota	X	
Jim Peugh, <i>Acting Chair</i>	X	
Irene Stallard-Rodriguez	X	
Todd Webster	X	
Gail Welch	X	
ExOfficios		
Scott Tulloch, Metro JPA		X
Augie Caires, Metro JPA, <i>Alternate</i>	X	
Ken Williams, City 10	X	

**2. Non-Agenda Public Comment**

There were no non-agenda public comments.

**3. Approval of Minutes from 3/15/10**

Chairperson Billings asked for a motion to approve the Minutes of March 15, 2010 with no corrections. Committee Member Hollingworth moved to approve, Committee Member Peugh seconded, there was a unanimous vote to approve the Minutes.

**4. Chair Updates – Chairperson Billings**

- MET Board approved a 7.5% increase effective January 1, 2011 followed by an additional 7.5% effective January 1, 2012. There will be in due course, rate increases for San Diego rate payers. There will be a special Finance Subcommittee meeting next month to go into depth on the drivers of this increase.
- Voice of San Diego published an article which will prompt a council hearing to accelerate the revisiting of water rates. Reports were made that may not have been completely accurate, in his opinion.

**5. City Staff Updates , Alex Ruiz, Interim Director**

- The Voice of San Diego report was incomplete and possibly misleading in terms of the how they characterized the work the City of San Diego had been doing to date on its Recycled Water Pricing Study report. He then described the discrepancies, noting there is an amendment going before Council next month to make sure this can be complete, and we expect to have the report done in the next 5 months. He stated it is true the price for recycled water has not fully supported the historic costs for that

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infrastructure, but the report itself shows it is a typical characteristic of a new system. We will be going forward to Council to amend the contract language with Raftelis, and will complete the report and bring before IROC with recommendations, looking forward to IROC's input and support.

- Announced his appointment as Interim Director since Jim Barrett's departure, and Marsi Steirer's appointment as Interim Assistant Director.
- Announced Rod Greek is departing this week; he has taken a position as Director of Finance with Santa Margarita Water District in Orange County. We wish him well with that promotion, and added he will be missed. Lee Ann Jones-Santos will be filling in this position for all Budgets and other operational aspects of this division; Jeanne Cole will be filling in as an unclassified Program Manager taking on the Finance and Rates portion of what was in Mr. Greek's division.
- Briefed NR&C on IPR project and status. After some controversy with regard to an EDR unit needed, we received a unanimous vote from Council to approve this project.
- Interviews have been complete, along with Committee Member Peugh, on the IPR/AWT Project. This contract will come to IROC in May, to NR&C in June and then to City Council in July.
- With regard to conservation, the reductions year to date for FY10 overall are: City water usage down 11.8% which is over the CWA's required 8%; residential customers down 11.4%; commercial customers down 8.2%; irrigation down 21.1 reflective to the heavy rains recently; and City Government overall down 9.9%. He added we are about 20,000 acre feet below the allocation to date, which is a savings. There should not be any more changes in allocation from MET, CWA or the City of San Diego.
- In regard to the Potable Water Cost of Service Study report to NR&C, this item was geared to changing the rate structure for the potable customers in the event we need to incentivize greater conservation we currently experience. We are not in position to recommend an alternative pricing structure, as the current plan should achieve the reductions we expect for 2010/2011.

Committee Member Hollingworth asked, with regard to Mr. Barrett's departure, what representation the Public Utilities have with CWA and MWD boards. Mr. Ruiz stated none at this time due to a reservation for the Director position by resolution by the City Council. This will be determined by the Mayor's Office.

Committee Member Kubota asked, in regard to the mention in the NR&C memo, the firm Katz & Associates having a "diverse group of outreach specialists reflecting the communities make-up", does this include a specialist to relate to senior citizens? Ms. Steirer stated yes there is. This will be addressed in the communications plan in the next Public Outreach, Education & Customer Service Subcommittee.

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6. **B2G Water & Wastewater MOU presentation**

Mr. Tom Crane, Assistant Director, referred to his handouts, and stated he will be asking for IROC's support for the DRAFT Water Fund Public Contract Operations Agreement (MOU) and the DRAFT Amended Wastewater Fund Public Contract Operations Agreement (MOU). He recapped the past efforts of meet and confer with Unions, Mayors Office and Metro TAC and hopes to present to the Rules Committee on May 19, then to City Council with the intent to have the MOU ratified and approved effective for the current Fiscal Year. He also commended the diligent work put into this by City staff. He stated all of the latest recommendations have been incorporated in the documents provided.

He referred to his slides and touched on the important new features which include requiring the Bid to be superior to private market proposal; the program administrations paid for out of employee savings; bid adjusted downward in amount of prior year incentive awards; and incentive awards more difficult to earn. He added the Gainsharing Goals are more quantifiable, challenging, relevant, and auditable.

Mr. Crane described the MOU contents, and referred to the MOU handouts as he went thru the sections and described terms mentioned in the MOUs. He noted the Wastewater MOU is an Amendment to the current effective MOU effective through FY12. He stated Benchmarking is the goal portion of Bid to Goal, the private consultant comes in and evaluates our operations and delivers an independent report to us, a cost and staff breakdown of what it would take to run our in-scope operations. He noted the private market proposal in the past has been substantially lower than our approved budget, which is a non-Bid to Goal budget savings.

He recapped the improvements placed into this program which include: improved accounting; bids adjusted downward in amount of prior year incentive awards; more disciplined review and auditing; program and administrative costs paid for from employee savings; and more challenging gainsharing goals. He added the participative culture of the employees, as a result of this program, has continued to improve.

He stated this item was discussed in detail with the Finance Subcommittee this morning and believes controls and training has been put in place and have a more substantial performance report at the end of each year, showing the savings are a result of this program. The City believes this program is good for the employees and the rate payers. He asked IROC to review the materials, since there was not time to do so today, as well as the D.I. and the provided PUD Bid to Goal Policy and Procedures Manual.

Committee Member Hollingworth asked if there would be a follow-up review with the City Auditor to make sure the reforms have been effective. Mr. Crane stated yes, the follow-up report is due within 90 days. He then asked if in the

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follow-up, he will address the questions regarding the effectiveness of the Bid to Goal program. Mr. Crane stated he presumes so, it should show how the savings were generated.

Committee Member Peugh stated it seems this is based on the accuracy of the private market proposal, and asked if the Consultant had adequate information of the condition of the system, in order to make an accurate estimate? Mr. Crane stated the Statement of Work by the Department presents has a clear picture of the entire system as well as a very clear discussion of each position. This is used like an RFP to make determinations of what it would cost to operate. This firm is very familiar with the operation, and its condition. Committee Member Peugh then asked if before taking action on this item, he would like to hear Item 12 first.

Ex-Officio Member Williams asked for a brief description of how the private market proposal is assembled. Mr. Crane had an example with him and shared with the Committee. He pointed out the Table of Contents and the various sections and layout of the proposal, which was developed by HDR, who have nationwide work and experience and are experts in the water and wastewater operations. Member Williams asked why a MOU is necessary with this type of program? Mr. Crane stated it is a “contract” between the labor management partnership and the City. We do not have the authority for an incentive award program in the City, which is essential for efficient operation. Assistant Director, Jim Fisher added since a program like this can have the ability to impact the wages and working conditions of the employees, the City is obligated to go to meet and confer with the Unions in participation of the program. This is a requirement.

Ex-Officio Member Caires added the Participating Agencies have supported this program from inception. It has been watched and monitored closely and they consider this an outstanding win-win model program

Chairperson Billings stated the Department is looking for support for this item, however, due to lack of time to review the documents, would like to trail the item to the next meeting of May 17. Mr. Crane concurred and stated that would be important to have the support on May 17, before going to the Rules Committee in mid-May. Chairperson stated this item will be continued to the May 17 meeting for action.

Chairperson Billings asked to proceed to Item 11, followed by Item 12.

**7. Water Refunding Bond Issuance**

Rod Greek presented this item, requesting IROC’s support the Water Refunding Bonds. He gave a background mentioning there were 2 bond issuances implemented in January and June, 2009. This issuance is related to a refunding only, there will be no new money involved. He gave a recap on the past refunding bonds.

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Mr. Greek went over the outstanding debt as of April 1, 2010 and the background. The outstanding 1998 Certificates and 2002 Bonds are being considered for economic refunding subject to market conditions.

He stated today we are going to Council to seek approval of the legal documents as well as introducing the Ordinance at City Council, it will require a second reading. We are seeking approval to refund Bonds in one or more series. He gave examples. He added we are required to meet the City's 3% Net Present Value (NPV) savings for the current refunding and 4% NPV savings for the advanced refunding.

He referred to his handouts, and gave updated figures for fiscal impact. He then described the sources and uses of funds, total uses would be \$158.5M with a true interest cost of 4.37%. He pointed out the projected debt coverage for estimated Bond Issues based on the current rate model and projected debt coverage for FY2011, FY12, and FY14, with noting we are not looking at any rate increases in 2012-2014 as things currently stand.

Mr. Greek reviewed the financing schedule timeline as: April 19, 2010 – introduction of the Financing Ordinance; late May - PFFA meeting to approve the 2010A refunding Bonds ("POS"); week of June 7, 2010 – release of the POS to investors; week of June 14, 2010 – pricing; and week of June 21, 2010 – Series 2010A Bond closing and redemption of Series 1998 Certificates.

He mentioned the Sewer Bond Issuance recently was very successful, with a savings of a net present value of \$14M which was a similar transaction as this, as well as saved rate payers money.

Committee Member Dull asked if the Build America Bonds are eligible for refunding. Mr. Greek stated they are not, however, we are looking at using Build America Bonds in the future.

Chairperson Billings asked if the savings would go to DRES. Mr. Greek stated yes, it is part of the calculation.

Committee Member Hollingworth moved to support the Bond Refunding, Committee Member Dull seconded. Unanimously all were in favor to support this item.

**8. Discussion: Nominations for Chair & Vice-Chair of IROC**

Please send in a nomination for yourself or other colleague for the two positions. This will be an action item for the May meeting.

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9. **Sub-Committee Reports**

a. **Finance – Subcommittee Chair Hollingworth**

- Pending to 7.5% and MWD rate increases. Subcommittee voted to hold a Special hearing within 2 weeks to invite representatives of MWD and CWA if possible, to justify the rate increase.

b. **Environmental & Technical – Subcommittee Chair Peugh**

- Presentation on IPR.
- Presentation on the Condition Assessment Program.
- Presentation on the Biosolids Treatment and Disposal. Ideas were brought forward for possible implementation, which deemed to be too costly.

c. **Public Outreach, Education & Customer Service – Subcommittee Chair Welch**

- Did not have quorum, meeting was cancelled.
- Qualcomm is having Earth Day celebration this Thursday at 10:00 a.m. in the Lecture Hall. Dr. Irwin Jacobs (Founder) will be presenting, as well as the Mayor in attendance. A special presentation will be made by an environmental photo journalist, who will have some exceptional photography and video on glacial melting. There will be good eats as well.

10. **Metro/JPA Report Out – Mr. Caires, JPA**

- Approved 3 Metro projects.
- Update on Exhibit E Audit, which is very important to the Participating Agencies. This is carried forward to next meeting.
- Approved first Strategic Plan, will get a copy to IROC when finalized.

11. **Bid to Goal Audit – City Auditor Presentation**

This item was heard out of sequence, and followed Item 6. Ms. Erin Noel, Principal Auditor, presented this item. She has been working with her team on the Bid to Goal Program (B2G). She gave a brief background of the findings and recommendations, mentioning the objectives determined. She stated the audit was conducted in accordance with the City Auditor's Annual Risk Assessment & Audit Work Plan for FY10, and in response to a request by Audit Committee Chairman Faulconer and City Council Member Carl DeMaio.

Ms. Noel had included a handout which IROC could refer to as she summarized the scope and methodology and background of the B2G, which was piloted in 1998. B2G has evolved and expanded since then. She then explained the bid process and gainsharing incentive program. She added the Employee Efficiency Reserve is capped at \$10M and used primarily for efficiency improvements and for payouts.

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She listed the 4 Findings as: Department lacking accurate and complete data which made it challenging; Divisions have achieved savings but efficiencies are attributable to other efforts and improvement are needed for managing B2G in 4 areas which she described; Department has improved goals and met administrative provisions of gainsharing, but lacks system for involving all levels of employees in goal setting; and discrepancies have occurred in savings calculations and goal achievement due to Department's lack of guidance and internal controls.

Recommendations for B2G to improve are: Documentation and transparency; credibility and management; goals and employee participation; reliability and internal controls. She provided in her handouts, and discussed the listed 14 recommendations for B2G, going over in detail. The Department concurred and agreed to implement the recommendations and did put out Policies & Procedures which have included their recommendation. She added there is a follow-up process as well.

In conclusion, the effective management of the B2G program is crucial to its success and to ensure that full benefits are derived. If the Department implements the changes recommended, it will assist in B2G fulfilling the program's original purpose – to help managers motivate employees to become the most effective and efficient organization possible.

Committee Member Dull asked if when the savings are overstated, will this be corrected in the incentive amounts? She stated yes, by the external auditor, before payouts are made.

Committee Member Hollingworth commended the Department and the City Auditor for the fine work and follow-up. He stated he seldom sees this in the public sector audit. He also asked for the scope of the follow-up and will this be sufficient to address the summary of findings 1-4. Ms. Noel stated all recommendations will be followed-up, and is in the Policy & Procedures. Secondly, that there is supporting documentation of following them. The course of action if the recommendations are not met, there would be a Report that would go to the Audit Committee. Mr. Kyle Elser, Audit Manager, stated every 6 months there will be a follow-up Report to the Audit Committee. Any recommendations not met would be highlighted and provided to City Management for action. Committee Member Hollingworth asked if this Report can be supplied to IROC. Mr. Elser concurred.

Committee Member Peugh asked if the administrative costs were finally tracked so they can be included? Ms. Noel stated the only administrative costs included is the administrative time spent actually working on putting gain sharing goals together, and developing bid, etc. They were not tracked before, however we came up with calculations, to give representation, and it is included in the Policy & Procedures now.

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Committee Member Webster asked for clarification of Finding for on page 20, in regard to goals not being met and showing discrepancies. She stated these cases were looked into and needed explanation. However, there is an inherent risk when you do not have internal control over certain instances, and this is where internal controls is important. If there is not a review by internal controls, there will not be a payout. She pointed out Recommendation 14 should definitely make a difference, and the established Internal Controls office will be reviewing the goals.

Mr. Ruiz reiterated there were two different departments with several different programs in place, starting at different points in time. It was recognized that there must be an independent review party perform an assessment of the Program. We relied on the Auditor's Office in the past because we did not have an Internal Controls Unit in the past. We now have this Unit in the uniform Public Utilities Department, and is performing this function in addition, will continue to have the AKT third party review. We do and always have understood that internal review is critical in the process.

**12. Bid to Goal Audit – Department Response**

This item was heard out of sequence, and followed Item 11, after Item 6. Tom Crane presented, noting this was offered to the Audit Committee on March 22. The response was voted on and approved by the Audit Committee. He briefly touched on some of the questions brought up in the last item. He stated the Policy & Procedures Manual had been worked on for several months making sure to capture the whole program. He briefed the IROC on the Internal Controls section. This group will review the annual reports before they go to the external Auditor, to capture any findings and corrections. All administrators have been trained on the Policy & Procedures Manual so everyone knows their responsibilities, which is a great opportunity for achievement.

Mr. Crane referred to his handouts and gave an introduction. He mentioned PMP's have been compared since 2005, 2008, 2007 and 2010. All accurate and up to date records have been centralized in the Employees Services, Internal Controls Division. The contents have been put together and a Final Program Report has been developed to be issued after the external audit of the goals, after the pay-out calculations, a second audit, and finally after pay-out. This will also include a status of all prior recommendations of every audit from prior years including the Auditor's audit. This will be a very clear and comprehensive document.

He reminded the committee all prior year reports, goals, etc. are available on our City website. He then listed and described each of the Audit Report Recommendations which are: document and transparency; credibility and management; goals and employee participation; and reliability and internal controls.



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**13. Proposed Agenda Items for Next IROC Meeting**

Please send to Chairperson Billings and Ernie Linares via email.

**14. IROC Members' Comments**

Committee Member Dull recognized Marsi Steirer in her recent Aqua News photo with Huell Howser.

**Adjournment of IROC**

At 12:11 Chairperson Billings adjourned the meeting, all were in favor and the meeting was adjourned.

Recording Secretary: \_\_\_\_\_  
Monica Musaraca